

PUBLIC DISCLOSURE

JULY 22, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

WATERTOWN MUNICIPAL CREDIT UNION

149 MAIN STREET
WATERTOWN, MASSACHUSETTS 02172

DIVISION OF BANKS
ONE SOUTH STATION
BOSTON, MA 02110

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **WATERTOWN MUNICIPAL CREDIT UNION** prepared by the Massachusetts Division of Banks, the institution's supervisory agency.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"

A CRA rating of "Satisfactory" is assigned. An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its membership, including low and moderate-income members, in a manner consistent with its resources and capabilities.

This examination was conducted utilizing three performance criteria for industrial credit unions: 1) Average Loan to Deposit (Share) ratio, 2) Lending to Borrowers of Different Incomes and 3) Fair Lending.

The credit union's average net loan-to-share ratio for the previous four semi-annual periods is 39.7 percent and marginally meets the standards for satisfactory performance at this time.

The credit union's record of lending activity by borrower income was deemed to be satisfactory. An analysis of lending activity revealed that 27.3 percent of real estate-related loans and 48.1 percent of a sample of consumer loans were granted to low and moderate-income borrowers.

The credit union's fair lending performance is also considered to meet the standards of satisfactory performance.

PERFORMANCE CONTEXT

Description of Institution

The Watertown Municipal Credit Union is a state chartered credit union founded to meet the credit needs of the employees of the City of Watertown and their families. The credit union has approximately 979 members, most of whom reside in Middlesex County.

As of June 30, 2002, the institution had total assets of \$13.7 million with total loans representing \$3.2 million or 23.3 percent of total assets. First mortgages represent 60.8 percent of the dollar amount of the loan portfolio, followed by used auto and second mortgage loans at 16.5 percent each.

The following table represents the break down of the credit unions loan portfolio:

Loan Portfolio as of June 30, 2002		
Loan Type	Amount	Percentage
First Mortgage	1,921,340	59.3
Second Mortgage	520,307	16.1
Unsecured Lines of Credit	171,669	5.3
Used Auto	521,154	16.1
New Auto	24,617	0.8
Other	77,670	2.4
Total	3,236,757	100

The credit union has one office located in the Watertown Town Hall at 149 Main Street, Watertown. The credit union employs one full-time and two part-time individuals. No offices have been opened or closed since the last CRA examination. Office hours are from 9:00 a.m. to 4:00 p.m. Monday to Friday.

The credit union provides members with direct deposit for payroll and automatic payroll deduction for loan payments.

Other than its small asset size and limited resources, there appear to be no significant financial or legal impediments, which would limit the credit union's ability to help meet the credit needs of its membership. The criteria for the various types of credit offered were reviewed during the examination, as were the procedures for completing a loan application. No practices intended to discourage applications were found. The credit union originates loans in all amounts. Rates, terms and conditions are competitive with other credit unions of similar size and type. The credit union has a credit committee of three directors who perform a review of approved or denied consumer loans on a weekly basis.

The credit union was last examined for compliance with the Community Reinvestment Act by the Division of Banks, on September 9, 1998. That examination resulted in a satisfactory rating.

Description of Assessment Area (Membership)

According to the Massachusetts Community Reinvestment Act Regulation, 209 CMR 46.41, a credit union, whose membership by-law provisions are not based on residence, may identify its membership as its assessment area.

Watertown Municipal Credit Union 's by-laws state: "Membership in this credit union is limited to permanent full-time, permanent part-time, retired, appointed and elected officials of the Town of Watertown. Members of their immediate families may also join." Consequently, Watertown Municipal Credit Union has elected to identify its membership as its assessment area

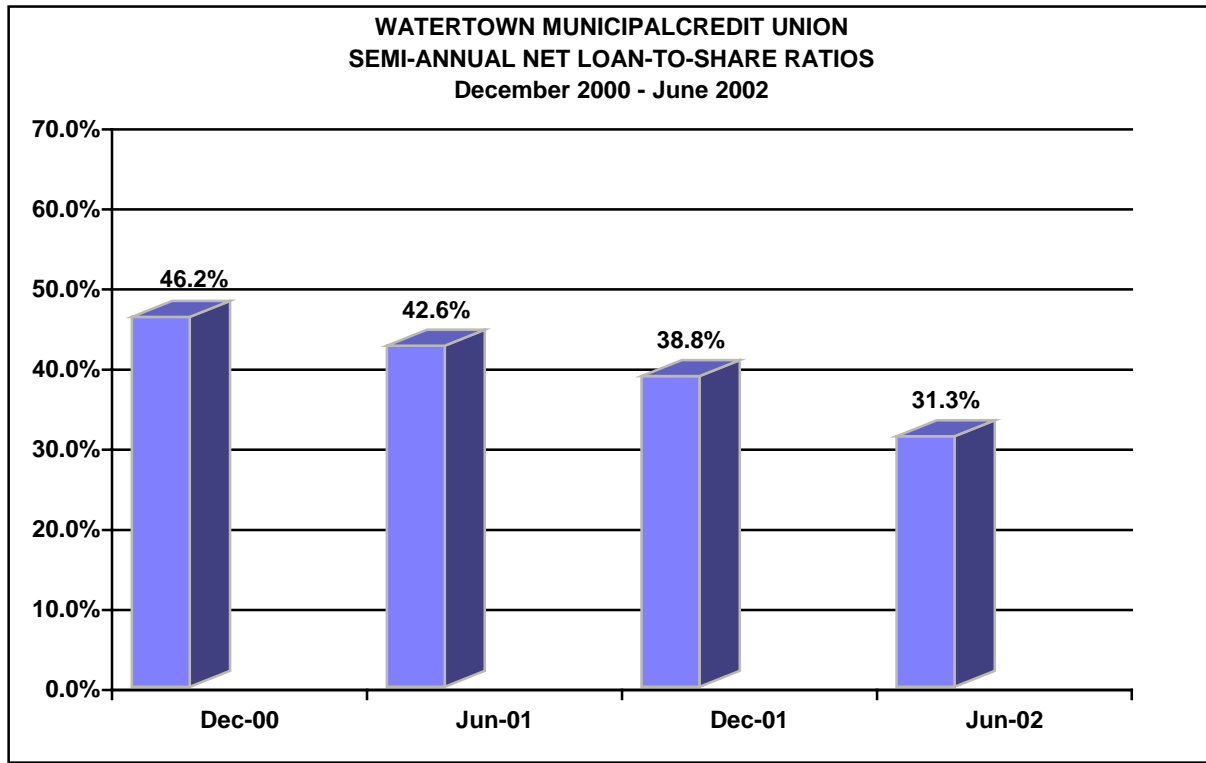
PERFORMANCE CRITERIA

1. LOAN TO DEPOSIT (SHARE) ANALYSIS

A comparative analysis of Watertown Municipal Credit Union 's net loan to deposit (share) ratio was performed during the examination. The calculation incorporated the latest four semi-annual periods utilizing the net loan to total share figures from the NCUA 5300 reports. This review included the periods ending December 31, 2000 through June 30, 2002.

The institution's average net loan to share ratio during this period was determined to be 39.7 percent which is somewhat low given the credit union's asset size, resources, competition, lending strategy and the credit needs of its membership.

The following graph illustrates the loan to share trends.



Source: NCUA Call Reports

As demonstrated above, the net loan to share ratio has exhibited a declining trend since the 4th quarter of 2000. The ratio has gone from 46.2 percent to 31.1 percent. Management has attributed this to an increase in deposits, with deposit growth outpacing loan growth due to the high interest rates offered on deposit accounts.

Given the credit union's size and the nature of competition it faces, the credit union's loan to share ratio marginally meets the standards for satisfactory performance.

2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA (S)

The second performance criterion examines an institution's record of lending within its assessment area. However, under the CRA regulations, 209 CMR, section 46.41, a credit union whose membership is not based on residence, such as the Watertown Municipal Credit Union, may define its assessment area as its membership. Since the credit union has elected to identify its assessment area in this manner, no evaluation of geographic factors was conducted.

3. LENDING TO BORROWERS OF DIFFERENT INCOMES

An analysis of real estate- related loans and a sample of consumer loans extended to the borrowers of different income levels were conducted. Originations were categorized by the ratio of the applicant's reported income to the 1999, 2000, 2001, and 2002 estimated median family incomes of the Boston Metropolitan Statistical Area (MSA). The median family income for the Boston MSA was \$62,700 for 1999, \$65,500 for 2000, \$70,000 for 2001 and \$74,200 for 2002. Income figures were based on estimated 1999, 2000, 2001 and 2002 data from the Department of Housing and Urban Development (HUD).

Low income is defined by the US Census Bureau as income below 50 percent of the median family income level for the MSA. Moderate income is defined as income between 50 to 79 percent of the median family income. Middle income is defined as income between 80 and 119 percent of the median family income. Upper income is defined as income greater than 120 percent of the median family income.

Real Estate Loans

The credit union granted 11 real estate related loans totaling \$494,100 for the period 1999 through year-to-date July 20, 2002 to members of different income levels. The table below shows that 9.1 percent of the loans were granted to low-income members and 18.2 percent was granted to moderate-income members.

Real Estate Loan Originations by Income of Borrower by Number										
Median Family Income Level	1999		2000		2001		Y-T-D 2002		Total	
	#	%	#	%	#	%	#	%	#	%
Low	0	0.0	0	0.0	1	12.5	0	0.0	1	9.1
Moderate	0	0.0	1	33.4	1	12.5	0	0.0	2	18.2
Middle	0	0.0	0	0.0	1	12.5	0	0.0	1	9.1
Upper	0	0.0	2	66.6	5	62.5	0	0.0	7	63.6
Total	0	0.0	3	100	8	100	0	0.0	11	100

Source: U.S. Census, In-house records

Consumer Lending

The credit union granted 94 consumer loans in 1999, 122 loans in 2000, 109 loans in 2001 and 45 loans as of year-to-date July 20, 2002, totaling 370 loans. The following table provides a breakdown of a sample of 52 consumer loans totaling \$461,724 which were originated to members of various income levels. This table indicates that 19.3 percent of the loans were granted to low-income members while 28.8 percent were to moderate-income members.

Consumer Loan Sample of Originations by Income of Borrower by Number										
Median Family Income Level	1999		2000		2001		Y-T-D 2002		Total	
	#	%	#	%	#	%	#	%	#	%
Low	1	11.1	1	7.1	4	28.6	4	26.7	10	19.3
Moderate	2	22.2	1	7.1	6	42.8	6	40.0	15	28.8
Middle	4	44.5	8	57.2	4	28.6	5	33.3	21	40.4
Upper	2	22.2	4	28.6	0	0	0	0	6	11.5
Total	9	100	14	100	14	100	15	100	52	100

Source: U.S. Census, In-house records

It should be noted that consumer loans typically consider the income of only one borrower. Therefore, the distribution of loans to low and moderate income borrowers is somewhat higher than in the case of residential mortgage originations, where the income is usually the result of joint incomes.

The distribution of credit among the credit union's membership reflects a good dispersion among individuals of different income levels, including those of low and moderate income. Therefore, performance under this criterion meets the standards for satisfactory performance.

4. GEOGRAPHIC DISTRIBUTION OF LOANS

As mentioned above, the credit union has elected to identify its membership as its assessment area, consequently no evaluation of geographic performance factors was conducted.

5. REVIEW OF COMPLAINTS/ FAIR LENDING POLICIES AND PRACTICES

Watertown Municipal Credit Union has not received any complaints related to its CRA performance since the previous examination. However, the credit union has procedures in place should any consumer complaints related to CRA be received.

FAIR LENDING POLICIES AND PRACTICES

The credit union's small size and resources limit its ability to meet the requirements of the Division's fair lending policy. The credit union's staff training is adequate. However, outreach, marketing, credit products and underwriting standards are directly affected by resources and limited product offerings. The institution has developed a second review process where all loans considered for denial are referred to the Credit Committee prior to the issue of a notice of denial.

The credit union's marketing activity includes bulletin boards located in the various offices of the Town of Watertown, lobby brochures at its main office, and statement stuffers in correspondence to the membership.

Due to the preponderance of consumer loans within the loan portfolio, for which ECOA prohibits the collection of racial data, no minority application flow was conducted..

Based on the foregoing information, the credit union meets the standards for satisfactory performance in this category.

THE COMMONWEALTH OF MASSACHUSETTS

To the COMMISSIONER OF BANKS:

THIS IS TO CERTIFY, that the report of examination of the

WATERTOWN MUNICIPAL CREDIT UNION

for compliance with applicable consumer and fair lending rules and regulations and the Community Reinvestment Act (CRA), as of the close of business **JULY 20, 2002**, has been read to or by the undersigned and the matters referred to therein will have our immediate attention.

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A majority of the Board of Directors/Trustees

Dated at _____ this _____ day of _____ 20 ____

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at "(Address at main office)".

[Please Note: If the institution has more than one local assessment area, each office (other than off-premises electronic deposit facilities) in that assessment area shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agency, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.